



Treasury Inspector General for Tax Administration

WHILE IMPROVEMENTS CONTINUE IN CONTRACT NEGOTIATION METHODS AND MANAGEMENT PRACTICES, INCONSISTENCIES NEED TO BE ADDRESSED

Issued on July 27, 2007

Highlights

Highlights of Report Number: 2007-20-123 to the Internal Revenue Service Chief, Agency-Wide Shared Services and Chief Information Officer.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) awarded 21 Business Systems Modernization task orders during Fiscal Years 2005 and 2006 with a total contract funding amount of approximately \$115 million. TIGTA determined the IRS needs to further refine contract negotiation and management practices for its Modernization and non-Modernization systems development task orders. The IRS has already achieved savings of nearly \$3.7 million from implementing one of our prior recommendations. Further improvements from applying consistent contract negotiation and management practices will assist the IRS in assuring taxpayer funds are being spent wisely.

WHY TIGTA DID THE AUDIT

The Modernization and Information Technology Services organization and the Office of Procurement have recognized the need to improve management of task orders for the Modernization program and have been emphasizing the increased use of performance-based contracting as one approach toward this improvement. Since our prior review, the IRS has made significant improvements such as preparing independent Federal Government cost estimates, documenting negotiation priorities and strategies, and completing negotiations timely.

In the past, the IRS approach to modernizing was an enormous development effort aimed at replacing its non-Modernization systems. The IRS is now focusing on a flexible, more realistic approach that seeks to use non-Modernization systems, as well as current and future information technology investments, to accomplish modernization. This audit determined whether the IRS has established and is following adequate contract negotiation and management practices for systems development task orders.

Email Address: Bonnie.Heald@tigta.treas.gov
Web Site: <http://www.tigta.gov>

WHAT TIGTA FOUND

While the Modernization and Information Technology Services organization and the Office of Procurement continue to make improvements to contract negotiation and management practices, further improvements can be made to select and document appropriate contract types. In addition, further improvements can be made to contract negotiations and management practices. Now that the IRS is using both Modernization and non-Modernization systems to accomplish modernization as part of the Information Technology Modernization Vision and Strategy Framework, there is a need determine whether some of the Modernization contract negotiation and management internal controls should be expanded to non-Modernization systems development activities.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Chief Information Officer and the Chief, Agency-Wide Shared Services, ensure an appropriate balance of risk between the IRS and its contractors; improve preaward processes; improve monitoring of contractor performance; and improve consistency of contract negotiation and management practices between Modernization and non-Modernization systems development task orders.

In their response to the report, IRS officials agreed with the recommendations. Corrective actions planned or taken include continuing to evaluate the use of firm fixed-price contracts; emphasizing the use of performance-based acquisitions; providing training opportunities; collecting and reviewing lessons learned from the use of independent estimates developed by the Estimation Program Office; tailoring the Total Information Processing Support Services Performance Work Statement template to meet each of the Enterprise Life Cycle milestones based on customers' needs; ensuring Modernization projects consistently prepare performance monitoring plans and all organizations are aware of the information available on the Office of Procurement Intranet site; assessing the need for multiyear funding and adding the appropriate amount of Information Technology Modernization Vision and Strategy funds into the 2-year budget appropriation; and establishing criteria for applying Modernization contract negotiation and management practices to non-Modernization systems development activities.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200720123fr.pdf>

Phone Number: 202-927-7037